

Financial Statements

Village of Shepherd

February 28, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Shepherd	County Gratiot
Fiscal Year End February 28, 2006	Opinion Date May 11, 2006	Date Audit Report Submitted to State August 25, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

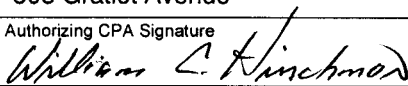
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Zip 48801			
Authorizing CPA Signature 		Printed Name William C. Hirschman	License Number 1101016179

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INDEPENDENT AUDITOR'S REPORT

Village of Shepherd
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shepherd (the Village) as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village as of February 28, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 11, 2006 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages I-II and the budgetary comparison information on pages 26-29 are not a required part of the basic financial statements but are supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

May 11, 2006

**MANAGEMENT DISCUSSION
AND ANALYSIS**

VILLAGE OF SHEPHERD
Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances.

Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets decreased just under 8.4% from a year ago - decreasing from \$2,937,596 to \$2,691,148. In contrast, last year's net assets increased 1%. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities decreased by \$310,218 during the year (32% decrease). The net assets of the business-type activities increased by \$63,770 during the year (4% increase).

The table below shows a condensed statement of net assets as of February 28, 2006:

	Governmental Activities	Business-Type Activities	Total
Current Assets	\$1,249,753	\$274,944	\$1,524,697
Noncurrent Assets	433,068	2,995,131	3,428,199
Total Assets	1,682,821	3,270,075	4,952,896
Current liabilities	641,102	192,561	833,663
Non-current Liabilities	78,085	1,350,000	1,428,085
Net Assets:			
Invested in Capital Assets, Net	318,112	1,455,131	1,773,243
Restricted	272,044		272,044
Unrestricted	373,478	272,383	645,861
Total net assets	963,634	1,727,514	2,691,148

The current level of unrestricted net assets for our governmental activities stands at \$373,478, or about 29% of expenses.

Expenditures of the governmental funds increased by about \$210,843 during the year, which was expected from the budget that was set.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 90% of Village residents, which comes from the Village water system. We provide sewage treatment to approximately 95% of Village residents, through the Village sewage treatment plant.

VILLAGE OF SHEPHERD Management's Discussion and Analysis

The Village's Funds

Our analysis of the Village's major funds begins on page 3, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property taxes.

The General Fund pays for most of the Village's governmental services. The amount transferred to the General Fund is supported by a detailed calculation of the current year costs of the specific capital outlay approved by the Village Board.

General Fund Budgetary Highlights

Over the course of the year, the Village Board amended the budget to take into account events during the year. There were no significant changes, other than a major street project which was approved from our General Fund and Public Improvement monies.

Capital Asset and Debt Administration

At the end of 2006, the Village still had \$3,428,199 invested in a broad range of capital assets, including buildings, police, and water and sewer lines. In addition, the Village has invested significantly in major roads within the Village, along with some minor local street improvements. These assets are not reported in the Village's financial statements because of Michigan law, which makes these roads the property of the County Road Commission (along with the responsibility to maintain them).

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2006-2007 again calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. However, the Village still needs to continue to watch its budget very closely.

Contacting Village Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village at 251 W. Wright Avenue, Shepherd, Michigan, 48883. The Village phone number is (989) 828-5278.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

Village of Shepherd
Statement of Net Assets
February 28, 2006, With Comparative Data

	Governmental Activities	Business-Type Activities	Total	2005
Assets				
Current assets				
Cash and cash equivalents	\$541,002	\$244,935	\$785,937	\$1,028,163
Accounts receivable, net	658,785	19,209	677,994	777,160
Due from other governmental units	49,966	-	49,966	45,965
Inventory	-	10,800	10,800	10,800
Total current assets	1,249,753	274,944	1,524,697	1,862,088
Noncurrent assets				
Capital assets - depreciable, net	433,068	2,995,131	3,428,199	3,466,781
Total assets	1,682,821	3,270,075	4,952,896	5,328,869
Liabilities				
Current liabilities				
Accounts payable	26,705	1,892	28,597	11,811
Accrued wages and other payroll liabilities	10,151	669	10,820	5,454
Deferred revenue	567,375	-	567,375	654,008
Current portion of long-term debt	36,871	190,000	226,871	180,000
Total current liabilities	641,102	192,561	833,663	851,273
Noncurrent liabilities				
Capital lease	78,085	1,350,000	1,428,085	1,540,000
Net Assets				
Invested in capital assets, net of related debt	318,112	1,455,131	1,773,243	1,746,781
Restricted for debt service	272,044	-	272,044	277,945
Unrestricted	373,478	272,383	645,861	912,870
Total net assets	\$963,634	\$1,727,514	\$2,691,148	\$2,937,596

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Activities
For the year ended February 28, 2006, With Comparative Data

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities
Functions/Programs					Total	2005
Governmental activities						
Legislative	\$27,639	-	-	-	(\$27,639)	(\$25,262)
General government	96,310	\$47,470	-	-	(48,840)	(33,041)
Public safety	150,621	-	-	-	(150,621)	(157,342)
Public works	572,314	-	-	-	(572,314)	(326,223)
Recreation and culture	5,865	-	-	-	(5,865)	(4,019)
Capital outlay	9,347	-	-	-	(9,347)	(56,002)
Debt service	74,885	221,215	-	-	146,330	126,125
Other expenditures	103,759	-	-	-	(103,759)	(83,086)
Total governmental activities	1,040,740	268,685	-	-	(772,055)	(558,850)
Business-type activities						
Water and sewer	246,609	119,190	-	-	-	(106,091)
Total	\$1,287,349	\$387,875	-	-	(772,055)	(899,474)
General revenues and transfers						
Taxes					317,965	299,493
State shared revenues					264,769	267,682
Unrestricted investment earnings					16,500	12,866
Miscellaneous revenues					23,678	77,131
Transfers					(191,806)	37,004
Total general revenues and transfers					431,106	694,176
Change in net assets					(340,949)	29,235
Net assets - beginning of year					1,273,852	2,908,361
Prior period adjustment					30,731	-
Net assets - end of year					\$963,634	\$2,937,596

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Village of Shepherd
Balance Sheet
Governmental Funds
February 28, 2006

	Major Funds					Total Governmental Funds
	General	Major Street	Local Street	Police	Debt Service	
Assets						
Cash and cash equivalents	\$197,129	\$30,154	\$46,029	\$44,459	\$177,831	\$495,602
Accounts receivable, net	10,186	-	-	32	648,567	658,785
Due from other governmental units	17,654	14,224	5,067	-	13,021	49,966
Total assets	\$224,969	\$44,378	\$51,096	\$44,491	\$839,419	\$1,204,353
Liabilities						
Accounts payable	\$12,293	\$12,191	\$546	\$1,675	-	\$26,705
Accrued wages and other payroll liabilities	7,014	558	278	2,301	-	10,151
Deferred revenue	-	-	-	-	\$567,375	567,375
Total liabilities	19,307	12,749	824	3,976	567,375	604,231
Fund balances						
Reserved for debt service	-	-	-	-	272,044	272,044
Unreserved	205,662	31,629	50,272	40,515	-	328,078
Total fund balances	205,662	31,629	50,272	40,515	272,044	600,122
Total liabilities and fund balances	\$224,969	\$44,378	\$51,096	\$44,491	\$839,419	\$1,204,353

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended February 28, 2006

Total fund balance - governmental funds	\$600,122
Amounts reported for governmental activities in the statement of net assets are different because:	
Internal service funds are used by management to charge the cost of equipment and materials to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	45,400
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	823,130
Deduct: accumulated depreciation	(505,018)
	<hr/>
Net assets of governmental activities	<u><u>\$963,634</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended February 28, 2006

	Major Funds					Total
	General	Major Street	Local Street	Police	Debt Service	Governmental Funds
REVENUES						
Property taxes	\$317,965	-	-	-	-	\$317,965
Special assessment	-	-	-	-	-	146,047
State shared revenues	157,865	\$78,824	\$28,080	-	\$146,047	264,769
Charges for services	47,470	-	-	-	-	122,638
Interest and rents	2,775	1,702	926	\$1,038	8,056	14,497
Miscellaneous	19,093	2,079	10	2,496	-	23,678
Total revenues	545,168	82,605	29,016	3,534	229,271	889,594
Expenditures						
Legislative	27,639	-	-	-	-	27,639
General government	76,445	-	-	-	-	76,445
Public safety	40,794	-	-	106,942	-	147,736
Public works	162,199	323,625	52,033	-	-	537,857
Recreation and culture	5,865	-	-	-	-	5,865
Capital outlay	9,347	-	-	-	-	9,347
Debt service	-	-	-	-	74,885	74,885
Other expenditures	103,459	-	-	-	300	103,759
Total expenditures	425,748	323,625	52,033	106,942	75,185	983,533
Excess of revenues over (under) expenditures	119,420	(241,020)	(23,017)	(103,408)	154,086	(93,939)
Other financing sources (uses)						
Transfers in	-	143,097	11,798	80,000	-	234,895
Transfers (out)	(165,403)	(11,798)	-	-	(160,000)	(337,201)
Total other financing sources (uses)	(165,403)	131,299	11,798	80,000	(160,000)	(102,306)
Excess of revenue and other sources over (under) expenditures and other uses	(45,983)	(109,721)	(11,219)	(23,408)	(5,914)	(196,245)
Fund balance - beginning of year	251,645	141,350	61,491	63,923	277,958	796,367
Fund balance - end of year	\$205,662	\$31,629	\$50,272	\$40,515	\$272,044	\$600,122

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended February 28, 2006

Net change in fund balances - total governmental funds	(\$196,245)
Amounts reported for governmental activities in the statement of activities are different because:	
Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and material usage, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	(102,526)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	<u>(42,178)</u>
Change in net assets of governmental activities	<u><u>(\$340,949)</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Net Assets
Proprietary Funds
February 28, 2006

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Assets				
Cash and cash equivalents	\$119,001	\$125,934	\$244,935	\$45,400
Accounts receivable, net	7,531	11,678	19,209	-
Inventory	-	10,800	10,800	-
Total current assets	126,532	148,412	274,944	45,400
Capital assets - depreciable, net	1,460,853	1,534,278	2,995,131	114,956
Total assets	\$1,587,385	\$1,682,690	\$3,270,075	\$160,356
Liabilities				
Accounts payable	\$135	\$1,757	\$1,892	-
Accrued wages and other payroll liabilities	337	332	669	-
Current portion of long-term debt	190,000	-	190,000	\$36,871
Total current liabilities	190,472	2,089	192,561	36,871
Capital lease	1,350,000	-	1,350,000	78,085
Total liabilities	1,540,472	2,089	1,542,561	114,956
Net assets				
Invested in capital assets, net of related debt	(79,147)	1,534,278	1,455,131	-
Unrestricted	126,060	146,323	272,383	45,400
Total net assets	46,913	1,680,601	1,727,514	45,400
Total liabilities and net assets	\$1,587,385	\$1,682,690	\$3,270,075	\$160,356

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended February 28, 2006

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Operating revenues				
Service charges	\$41,530	\$67,138	\$108,668	\$61,793
User fees	2,560	1,762	4,322	-
Hydrant rental	-	6,200	6,200	-
Total operating revenues	44,090	75,100	119,190	61,793
Operating expenses				
Salaries and wages	12,483	14,689	27,172	-
Fringe benefits	953	1,103	2,056	-
Supplies	4,494	34,075	38,569	-
Contracted services	21,646	11,075	32,721	-
Utilities	2,177	7,813	9,990	-
Rentals	-	1,352	1,352	-
Repairs and maintenance	-	7,705	7,705	-
Principal payments	-	-	-	35,495
Interest	-	-	-	5,832
Depreciation	55,590	55,770	111,360	35,495
Miscellaneous	12,340	3,344	15,684	-
Total operating expenses	109,683	136,926	246,609	76,822
Operating income (loss)	(65,593)	(61,826)	(127,419)	(15,029)
Non-operating revenues (expenses)				
Interest income	2,174	1,389	3,563	2,003
Other	21	8,105	8,126	-
Total non-operating revenues (expenses)	2,195	9,494	11,689	2,003
Other financing sources (uses)				
Operating transfers in (out)	179,500	-	179,500	(89,500)
Net income	116,102	(52,332)	63,770	(102,526)
Net assets - beginning of year	(69,189)	1,732,933	1,663,744	117,195
Prior period adjustment	-	-	-	30,731
Net assets - end of year	\$46,913	\$1,680,601	\$1,727,514	\$45,400

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Cash Flows
Proprietary Funds
For the year ended February 28, 2006

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Cash flows from operating activities:				
Receipts from customers	\$46,890	\$81,598	\$128,488	\$61,793
Payments to suppliers / outsiders	(40,951)	(67,373)	(108,324)	(4,764)
Payments to employees	(13,439)	(15,494)	(28,933)	-
Net cash provided by operating activities	(7,500)	(1,269)	(8,769)	57,029
Cash flows from non-capital financing activities:				
Operating transfers in	180,000	-	180,000	-
Operating transfers (out)	(500)	-	(500)	(89,500)
Net cash provided by non-capital financing activities	179,500	-	179,500	(89,500)
Cash flows from capital and related financing activities:				
Interest payments	-	-	-	(5,832)
Principal payments	(180,000)	-	(180,000)	(35,495)
Net cash provided by capital and related financing activities	(180,000)	-	(180,000)	(41,327)
Cash flows from investing activities:				
Interest income	2,174	1,389	3,563	2,003
Other	21	8,105	8,126	-
Net cash provided by investing activities	2,195	9,494	11,689	2,003
Net increase (decrease) in cash and cash equivalents	(5,805)	8,225	2,420	(71,795)
Cash and cash equivalents - beginning of year	124,806	117,709	242,515	117,195
Cash and cash equivalents - end of year	<u>\$119,001</u>	<u>\$125,934</u>	<u>\$244,935</u>	<u>\$45,400</u>
Cash flows from operating activities:				
Income from operations	(\$65,593)	(\$61,826)	(\$127,419)	(15,029)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	55,590	55,770	111,360	35,495
(Increase) decrease in:				
Accounts receivable	2,800	6,498	9,298	-
Increase (decrease) in:				
Accounts payable	(294)	(2,009)	(2,303)	36,871
Accrued expenses	(3)	298	295	-
Other	-	-	-	(308)
Net cash provided by operating activities	<u>(\$7,500)</u>	<u>(\$1,269)</u>	<u>(\$8,769)</u>	<u>\$57,029</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Village of Shepherd (the Village) is a General Law Village incorporated under PA 3 of 1895. The Village operates under a 7-member elected Village Council and provides a wide range of municipal services to Village residents. The accompanying financial statements present the Village and its component units, entities for which the government is considered financially accountable. The reporting entity of the Village excludes the Shepherd Tri-Township Fire Department in accordance with the criteria established by the National Council on Governmental Accounting Statements Number 3. This entity is considered a joint venture of the local units involved.

Jointly Governed Organization

The Village, in conjunction with Coe, Lincoln, and Chippewa Townships, entered into an agreement to operate the Shepherd Tri-Township Fire Department. Its purpose is to provide fire protection to the residents in the tri-township area. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Village Statement Number 14.

Based on the application of these criteria, the financial statements of the Shepherd Tri-Township Fire Department, a joint venture which operates autonomously under a service agreement among the participating units, are not included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Village of Shepherd
Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year-end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Shepherd
Notes To The Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village are charges to customers for water, sewer, and trash services. Operating expenses for the enterprise funds include the cost of administration expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The financial activities of the Village are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Village uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Village that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in other funds.

Village of Shepherd
Notes To The Financial Statements

Special Revenue Funds - The special revenue funds account for the revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

Debt Service Funds - The debt service fund is used to record special assessments collected, interest, and other revenue for payment of principal, interest, and other expenditures on the Storm Water Separation Project debt.

Proprietary Funds

Water and Sewer Funds - These funds report operations that provide water and sewer services which are financed primarily by user charges to external parties, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Internal Service Fund - This fund reports operations that provide services which are financed primarily by user charges to other funds on a cost-reimbursement basis.

Management has decided to classify all governmental and proprietary funds as major funds.

In addition to the governmental and proprietary funds the Village has the following other funds:

Agency Fund

The Village maintains agency funds to account for property tax collections and payroll related withholdings.

Budgetary Data

Formal budgetary control is implemented for all required funds and the budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. The budget is adopted at the function level. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted. The Village does not maintain a formalized encumbrance accounting system.

Village of Shepherd
Notes To The Financial Statements

Cash and Cash Equivalents

The Village's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments in certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Inventories

With the exception of the water fund, the Village generally does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Village of Shepherd
Notes To The Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Village are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings & Improvements	40 – 50
Machinery & Equipment	5 – 20
Vehicles	5 – 10

Deferred Revenue

Deferred revenues arise when the Village receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Funds – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

Grants

Grants are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Village's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level and have been presented at the functional level in this report.

During the year ended February 28, 2006, The Village incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report.

Village of Shepherd
Notes To The Financial Statements

NOTE 3 - CASH AND CASH EQUIVALENTS

At February 28th the carrying amount of the Village's cash and cash equivalents are as follows:

Cash and Cash Equivalents	2006	2005
Petty Cash	\$90	\$65
Checking, Savings, & Money Market Accounts	515,557	740,371
Certificates of Deposit	270,290	287,727
Total	\$785,937	\$1,028,163

At February 28, 2006 the bank balance was \$1,029,327. The difference between the bank balance and the carrying amount shown above is due to outstanding deposits and checks. Of the bank balance, \$409,800 was covered by federal depository insurance and \$619,527 was uninsured and uncollateralized. Some of the deposits which exceed FDIC insurance coverage are held at local banks. The carrying amount shown above approximates its fair value.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of February 28th, consists of the following:

Fund / Receivable	2006	2005
General Fund:		
Trash	\$10,186	\$12,508
Debt Service Fund – Storm Water Separation Project:		
Special Assessments	648,567	735,880
Police Fund:		
Reimbursement	32	265
Water Fund:		
Water Fees	11,678	18,176
Sewer Fund:		
Sewer Fees	7,531	10,331
Total	\$677,994	\$777,160

Village of Shepherd
Notes To The Financial Statements

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units as of February 28th, consists of the following:

Fund / Due From	2006	2005
General Fund:		
County of Isabella – Property Taxes	\$17,654	\$13,295
Major Street:		
State of Michigan	14,224	14,050
Local Street:		
State of Michigan	5,067	5,005
Debt Service Fund – Storm Water Separation Project:		
County of Isabella – Property Taxes	13,021	13,615
Total	\$49,966	\$45,965

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended February 28, 2006 for the *governmental activities* was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Land	\$10,000	-	-	\$10,000
Buildings & Improvements	253,800			253,800
Machinery & Equipment	328,558	-	-	328,558
Vehicles	230,772	\$228,266	-	459,038
Sub-total	823,130	228,266	-	1,051,396
ACCUMULATED DEPR:				
Buildings & Improvements	(83,820)	(4,836)	-	(88,656)
Machinery & Equipment	(196,962)	(17,604)	-	(214,566)
Vehicles	(182,058)	(133,048)	-	(315,106)
Sub-total	(462,840)	(155,488)	-	(618,328)
NET CAPITAL ASSETS	\$360,290	\$72,778	-	\$433,068

Village of Shepherd
Notes To The Financial Statements

Capital assets activity for the year ended February 28, 2006 for the *business-type* activities was as follows:

Business-Type	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Land	\$31,186	-	-	\$31,186
Buildings & Improvements	4,502,350	-	-	4,502,350
Machinery & Equipment	103,397	-	-	103,397
Sub-total	4,636,933	-	-	4,636,933
ACCUMULATED DEPR:				
Buildings & Improvements	(1,471,822)	(\$109,155)	-	(1,580,977)
Machinery & Equipment	(58,620)	(2,205)	-	(60,825)
Sub-total	(1,530,442)	(111,360)	-	(1,641,802)
NET CAPITAL ASSETS	\$3,106,491	(\$111,360)	-	\$2,995,131

Depreciation expense was charged to programs as follows:

GOVERNMENT ACTIVITIES:	
General Government	\$40,331
Public Safety	2,885
Public Works	34,457
Total Government Activities	77,673
BUSINESS-TYPE ACTIVITIES:	
Water	55,770
Sewer	55,590
Total Business-Type Activities	111,360
Total	\$189,033

Village of Shepherd
Notes To The Financial Statements

NOTE 7 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental fund also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year the various components of deferred revenue reported in the governmental funds were as follows:

Deferred Revenue	2006	2005
Special Assessments Not Yet Due	\$567,375	\$654,008

NOTE 8 – STORM WATER SEPARATION PROJECT

During the 1994-95 fiscal year the Village of Shepherd contracted with the Isabella County Department of Public Works (DPW) for the construction associated with the improvements of the Sewer Disposal and Water Systems of the Village.

Beginning with the 1994 tax levy, a special assessment was established against Village property owners in order to provide a portion of the funds needed to service the Isabella County DPW loan. The total special assessment principal balance was \$2,493,341, bears an interest rate of 6.87%, and is being assessed over a twenty year period. Property owners were given the option to pay their portion of the assessment in full at any time to avoid additional interest on the assessment. These advance payments have been recorded as deferred revenue for the portion attributable to years after fiscal year ending February 29, 2000. This amount which has been recognized as deferred revenue is then being recognized as revenue proportionately over the remaining life of the deferral.

The remaining portion of the Isabella County DPW loan is serviced by capital surcharges which were added to customers quarterly water bills. The water capital surcharge is 80 cents per 1,000 gallons of water used. The sewer capital surcharge is also 80 cents per 1,000 gallons of water used. Special assessment collection activities and the capital surcharges are accounted for in the Storm Water Separation Project Debt Service Fund.

NOTE 9 - LONG-TERM DEBT

Capital Leases

The Village entered into a capital lease arrangement for financing the Waste Water Sanitary Improvement Facility. The lease agreement was entered into on January 1, 1999 and the present value of the minimum lease payments at that time was \$2,460,000.

The Village also entered into a capital lease arrangement for financing several vehicles used to service the Village. The lease agreement was entered into on April 10, 2004 and the present value of the minimum lease payments at that time was \$190,710.

The lease agreements qualify as capital leases for accounting purposes and, therefore, a capital asset has been recorded at the present value of the minimum lease payments as of the date of each lease. Additional information regarding these leases can be found in the back of this report.

Compensated Absences

Vacation

Employees are allowed to accumulate and carry forward up to 48 hours of vacation time. Amounts accumulated are to be paid to the employee either when vacation time is actually taken or upon termination of employment. These financial statements do not reflect a liability for unused vacation hours since the amount is not material.

Sick

Sick leave is earned at the rate of 96 hours per year for full-time employees, not to exceed 90 days and a pro-rata number of hours for part-time employees. Upon termination of employment, all sick leave benefits are forfeited. These financial statements do not reflect a liability for unused sick leave hours since they do not vest or accumulate from year to year.

The changes in long-term debt during the fiscal year ended February 28, 2006 are as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Capital Leases	\$1,870,451	-	\$215,495	\$1,654,956

Village of Shepherd
Notes To The Financial Statements

The annual requirements to pay principal and interest on the obligations outstanding at February 28, 2006 are as follows. Interest expense totals \$286,438.

For The Fiscal year Ending February 28,	Amount
2007	\$294,662
2008	286,682
2009	278,655
2010	229,205
2011	220,940
2012 and thereafter	\$631,250

NOTE 10 – JOINT VENTURE

The Village is a member of the Shepherd Tri-Township Fire Department, which is a joint venture between the Village and Chippewa, Coe, and Lincoln Townships. All units are located in Isabella County. Each unit names two members and an alternate from its governmental body to serve as the Fire Department's Advisory Board. The Advisory Board is responsible for adopting the annual budget. Under the arrangement, each unit bears its share of the cost according to a formula which takes the ratio of population and state equalized valuation which each unit involved bears to the total population and state equalized valuation of all units and averages the two. Annual contributions are made based upon the budget. The following financial information of the joint venture was obtained from the audited financial statements of the Shepherd Tri-County Fire Department for the year ended November 30, 2005, the most recent financial statements available:

Total Assets	\$161,268
Total Liabilities	-
Total Equity	161,268
Total Revenues	233,323
Total Expenditures	\$216,455

Fixed assets at cost, which are not included in the above numbers, totaled \$1,790,190.

For the Fire Department's year ended November 30, 2005 the share of the annual budget for each participating unit was:

Governmental Unit	Share of Budget
Village of Shepherd	14%
Chippewa Township	44%
Lincoln Township	23%
Coe Township	19%
Total	100%

NOTE 11 – PENSION PLAN

Plan Description

The Village of Shepherd participates in the Michigan Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system. All full-time employees (excluding officials) of the Village are eligible to participate in the system. General Village and Police Department employees who retire at or after the age of 60 with 10 years of credited service are entitled to retirement benefits payable monthly for life, equal to 1.7% of their final average compensation. Employees who retire at age 55 with 15 or more years of credited service are entitled to reduced benefits. There is no mandatory retirement. Deferred retirement is provided by MERS. MERS also provides for death and disability benefits. Benefits are established by Michigan Public Act 427 of 1984.

Funding Policy

The Village adopted Benefit E for 1989 which provides a one-time benefit increase to present retirees and beneficiaries equal to two percent of the present benefits times the number of years since the later of retirement or the last Benefit E increase (Benefit E may be readapted from time to time). Beginning March 1, 1990 the Village adopted Benefit E-1. This plan provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired before the effective date of Benefit E-1. Cumulative increases are limited to increases in the consumer price index.

The Village has the responsibility for making actuarially determined contributions to MERS. The required contributions are zero. The employees made contributions of 2% of annual compensation during the fiscal year ended February 28, 2006. For the year ended February 28, 2006 the Village's annual pension cost was zero.

Village of Shepherd
Notes To The Financial Statements

The following table presents information required by GASB Statements Number 25 and 27. This information is as of December 31, 2004.

GASB 25 INFORMATION	
Actuarial Accrued Liability:	
Retirees and Beneficiaries Currently Receiving Benefits	\$0
Terminated Employees Not Yet Receiving Benefits	121,876
Non-vested Terminated Employees (pending refunds of accumulated member contributions)	2,481
Current Employees –	
Accumulated Employee Contributions Including Allocated	16,507
Investment Income	55,210
Employer Financed	
Total Actuarial Accrued Liability	196,074
Net Assets Available For Benefits At Actuarial Value (market value \$339,383)	347,686
Unfunded (Overfunded) Actuarial Accrued Liability	(\$151,612)
GASB 27 INFORMATION	
Fiscal Year Beginning	March 1, 2006
Annual Required Contributions (ARC)	\$0
Amortization Factor Used – Underfunded Liabilities (33 years)	.053632
Amortization Factor Used – Underfunded Liabilities (10 years)	.119963

NOTE 12 – FUND BALANCE RESERVES

In the fund level financial statements a portion of the fund balance at February 28th has been reserved for debt service, since this item does not constitute "available spendable resources."

NOTE 13 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Village has purchased commercial insurance from independent insurance providers for property loss, professional liability, and employee injuries (worker's compensation).

Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Village of Shepherd
Notes To The Financial Statements

NOTE 14 – SEGMENT INFORMATION

The Village maintains two enterprise funds which provides water and sewer services. Segment information for the year ended February 28, 2006 is as follows:

	Sewer Fund	Water Fund
Operating Revenues	\$44,090	\$75,100
Depreciation Expense	55,590	55,770
Operating Income Or (Loss)	(65,593)	(61,826)
Operating Transfers In (Out)	179,500	-
Net Income (Loss)	116,102	(52,332)
Plant, Property And Equipment Additions	-	-
Net Working Capital	(63,940)	146,323
Total Equity	\$46,913	\$1,680,601

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the year ended February 28, 2006

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$300,089	\$300,089	\$317,965	\$17,876
Special assessments	-	-	-	-
State shared revenues	150,000	150,000	157,865	7,865
Charges for services	49,440	49,440	47,470	(1,970)
Interest and rents	1,100	1,100	2,775	1,675
Miscellaneous	12,700	12,700	19,093	6,393
Total revenues	513,329	513,329	545,168	31,839
Expenditures				
Legislative	33,300	33,300	27,639	5,661
General government	80,813	81,429	76,445	4,984
Public safety	27,250	27,250	40,794	(13,544)
Public works	150,505	149,255	162,199	(12,944)
Recreation and culture	6,000	6,880	5,865	1,015
Capital outlay	2,500	2,600	9,347	(6,747)
Debt service	-	-	-	-
Other expenditures	110,226	112,293	103,459	8,834
Total expenditures	410,594	413,007	425,748	(12,741)
Excess of revenues over (under) expenditures	102,735	100,322	119,420	19,098
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers (out)	(98,084)	(113,084)	(165,403)	(52,319)
Total other financing sources (uses)	(98,084)	(113,084)	(165,403)	(52,319)
Excess of revenues and other sources over (under) expenditures and other uses	4,651	(12,762)	(45,983)	(33,221)
Fund balance, beginning of year	251,645	251,645	251,645	-
Fund balance, end of year	\$256,296	\$238,883	\$205,662	(\$33,221)

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Street Fund
For the year ended February 28, 2006

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$77,000	\$77,000	\$78,824	\$1,824
Charges for services	-	-	-	-
Interest and rents	500	500	1,702	1,202
Miscellaneous	-	-	2,079	2,079
Total revenues	77,500	77,500	82,605	5,105
Expenditures				
Legislative	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	49,891	198,534	323,625	(125,091)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	49,891	198,534	323,625	(125,091)
Excess of revenues over (under) expenditures	27,609	(121,034)	(241,020)	(119,986)
Other financing sources (uses)				
Operating transfers in	23,084	63,097	143,097	80,000
Operating transfers (out)	(11,550)	(11,550)	(11,798)	(248)
Total other financing sources (uses)	11,534	51,547	131,299	79,752
Excess of revenues and other sources over (under) expenditures and other uses	39,143	(69,487)	(109,721)	(40,234)
Fund balance, beginning of year	141,350	141,350	141,350	-
Fund balance, end of year	\$180,493	\$71,863	\$31,629	(\$40,234)

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Street Fund
For the year ended February 28, 2006

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$29,500	\$29,500	\$28,080	(\$1,420)
Charges for services	-	-	-	-
Interest and rents	600	600	926	326
Miscellaneous	-	-	10	10
Total revenues	30,100	30,100	29,016	(1,084)
Expenditures				
Legislative	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	63,886	65,489	52,033	13,456
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	63,886	65,489	52,033	13,456
Excess of revenues over (under) expenditures	(33,786)	(35,389)	(23,017)	12,372
Other financing sources (uses)				
Operating transfers in	11,550	11,550	11,798	248
Operating transfers (out)	-	-	-	-
Other financing sources (uses)	11,550	11,550	11,798	248
Excess of revenues and other sources over (under) expenditures and other uses	(22,236)	(23,839)	(11,219)	12,620
Fund balance, beginning of year	61,491	61,491	61,491	-
Fund balance, end of year	\$39,255	\$37,652	\$50,272	\$12,620

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Police Fund
For the year ended February 28, 2006

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	-	-	-	-
Charges for services	-	-	-	-
Interest and rents	\$300	\$300	\$1,038	\$738
Miscellaneous	41,039	41,039	2,496	(38,543)
Total revenues	41,339	41,339	3,534	(37,805)
Expenditures				
Legislative	-	-	-	-
General government	-	-	-	-
Public safety	153,431	156,070	106,942	49,128
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	153,431	156,070	106,942	49,128
Excess of revenues over (under) expenditures	(112,092)	(114,731)	(103,408)	11,323
Other financing sources (uses)				
Operating transfers in	80,000	80,000	80,000	-
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	80,000	80,000	80,000	-
Excess of revenues and other sources over (under) expenditures and other uses	(32,092)	(34,731)	(23,408)	11,323
Fund balance, beginning of year	63,923	63,923	63,923	-
Fund balance, end of year	\$31,831	\$29,192	\$40,515	\$11,323

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

SCHEDULE OF LONG-TERM DEBT

Village Of Shepherd
Balance Sheet
General Fund
February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$197,129	\$230,605
Accounts receivable, net	10,186	12,508
Due from other governmental units	<u>17,654</u>	<u>13,295</u>
Total assets	<u>\$224,969</u>	<u>\$256,408</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$12,293	\$3,120
Accrued wages and other payroll liabilities	<u>7,014</u>	<u>1,643</u>
Total liabilities	<u>19,307</u>	<u>4,763</u>
Fund balance		
Unreserved, undesignated	<u>205,662</u>	<u>251,645</u>
Total fund balance	<u>205,662</u>	<u>251,645</u>
Total liabilities and fund balance	<u>\$224,969</u>	<u>\$256,408</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For The Years Ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Taxes and penalties	\$317,965	\$299,493
State grants	157,865	156,937
Charges for services	47,470	49,657
Interest and rents	2,775	2,994
Other revenue	<u>19,093</u>	<u>26,778</u>
Total revenues	<u>545,168</u>	<u>535,859</u>
Expenditures		
Legislative	27,639	25,262
General government	76,445	77,862
Public safety	40,794	44,149
Public works	162,199	140,595
Recreation and culture	5,865	4,019
Other expenditures	103,459	82,186
Capital outlay	<u>9,347</u>	<u>56,002</u>
Total expenditures	<u>425,748</u>	<u>430,075</u>
Excess (deficiency) of revenues over (under) expenditures	<u>119,420</u>	<u>105,784</u>
Other financing sources (uses)		
Operating transfers in	-	49,899
Operating transfers out	<u>(165,403)</u>	<u>(105,873)</u>
Total other financing sources (uses)	<u>(165,403)</u>	<u>(55,974)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(45,983)	49,810
Fund balance, beginning of year	<u>251,645</u>	<u>201,835</u>
Fund balance, end of year	<u><u>\$205,662</u></u>	<u><u>\$251,645</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Expenditures
General Fund
For The Years Ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Legislative		
Village council		
Salaries and wages	\$20,680	\$16,248
Training and education	1,430	387
Printing and publishing	2,628	5,887
Dues and subscriptions	1,188	1,617
Miscellaneous	1,713	1,123
	<u>27,639</u>	<u>25,262</u>
General government		
Elections board		
Printing and supplies	300	1,463
	<u>300</u>	<u>1,463</u>
Assessor and building inspector		
Salaries and wages	600	600
	<u>600</u>	<u>600</u>
Legal and professional		
Contracted services	<u>10,500</u>	<u>10,500</u>
Clerk and treasurer		
Salaries and wages	35,711	30,926
Office supplies	3,392	2,907
Contracted services	1,049	1,619
Training and education	661	93
Communications	1,983	1,932
Miscellaneous	271	3,540
	<u>43,067</u>	<u>41,017</u>
Hall and grounds		
Operating supplies	6,478	8,215
Repairs and maintenance	1,444	1,117
Communications	4,027	3,976
Utilities	8,232	8,834
Contracted services	278	218
Miscellaneous	1,519	1,922
	<u>21,978</u>	<u>24,282</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Expenditures
General Fund
For The Years Ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Total general government	<u>\$76,445</u>	<u>\$77,862</u>
Public safety		
Crossing guard	-	4,735
Contracted services	<u>40,794</u>	<u>39,414</u>
	<u>40,794</u>	<u>44,149</u>
Public works		
Salaries and wages	37,014	27,360
Supplies	9,489	5,476
Contracted services	2,121	2,100
Repairs	6,322	6,616
Trash	50,059	47,103
Equipment rental	34,997	33,114
Miscellaneous	3,789	-
Utilities	<u>18,408</u>	<u>18,826</u>
	<u>162,199</u>	<u>140,595</u>
Recreational and cultural		
City park		
Salaries and wages	3,103	2,764
Supplies	102	280
Utilities	2,180	675
Equipment rental	<u>480</u>	<u>300</u>
	<u>5,865</u>	<u>4,019</u>
Other expenditures		
Employee insurances and fringes	49,070	52,267
Insurance	45,377	22,147
Payroll taxes	8,152	7,097
Other	<u>860</u>	<u>675</u>
	<u>103,459</u>	<u>82,186</u>
Capital outlay	<u>9,347</u>	<u>56,002</u>
Total expenditures	<u><u>\$425,748</u></u>	<u><u>\$430,075</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Combining Balance Sheet
Special Revenue Funds
February 28, 2006

Assets	Major Street	Local Street	Police	Total
Cash and investments	\$30,154	\$46,029	\$44,459	\$120,642
Accounts receivable, net	-	-	32	32
Due from other governmental units	14,224	5,067	-	19,291
Total Assets	<u>\$44,378</u>	<u>\$51,096</u>	<u>\$44,491</u>	<u>\$139,965</u>
Liabilities and fund balance				
Liabilities				
Accounts payable	\$12,191	\$546	\$1,675	\$14,412
Accrued wages and other payroll liabilities	558	278	2,301	3,137
Total liabilities	<u>12,749</u>	<u>824</u>	<u>3,976</u>	<u>17,549</u>
Fund balance				
Unreserved, undesignated	<u>31,629</u>	<u>50,272</u>	<u>40,515</u>	<u>122,416</u>
Total fund balance	<u>31,629</u>	<u>50,272</u>	<u>40,515</u>	<u>122,416</u>
Total liabilities and fund balance	<u>\$44,378</u>	<u>\$51,096</u>	<u>\$44,491</u>	<u>\$139,965</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds
For The Year Ended February 28, 2006

	Major Street	Local Street	Police	Total
Revenues				
State grants	\$78,824	\$28,080	-	\$106,904
Fines and forfeits	-	-	\$693	693
Interest	1,702	926	1,038	3,666
Other revenue	2,079	10	1,803	3,892
Total revenues	<u>82,605</u>	<u>29,016</u>	<u>3,534</u>	<u>115,155</u>
Expenditures				
Salaries and wages	23,378	10,543	59,320	93,241
Fringe benefits	1,751	769	21,644	24,164
Supplies	3,666	4,844	1,262	9,772
Contracted services	280,897	26,530	6,661	314,088
Communications	-	-	3,674	3,674
Utilities	165	-	-	165
Rentals	10,456	6,032	-	16,488
Repairs and maintenance	2,713	2,769	-	5,482
Miscellaneous	599	546	14,381	15,526
Total expenditures	<u>323,625</u>	<u>52,033</u>	<u>106,942</u>	<u>482,600</u>
Excess of revenues over (under) expenditures	(241,020)	(23,017)	(103,408)	(367,445)
Other financing sources (uses)				
Transfers in	143,097	11,798	80,000	234,895
Transfers (out)	(11,798)	-	-	(11,798)
Total other financing sources (uses)	<u>131,299</u>	<u>11,798</u>	<u>80,000</u>	<u>223,097</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(109,721)	(11,219)	(23,408)	(144,348)
Fund balance, beginning of year	<u>141,350</u>	<u>61,491</u>	<u>63,923</u>	<u>266,764</u>
Fund balance, end of year	<u>\$31,629</u>	<u>\$50,272</u>	<u>\$40,515</u>	<u>\$122,416</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Major Street Fund
February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$30,154	\$130,022
Due from other governmental units	<u>14,224</u>	<u>14,050</u>
Total assets	<u><u>\$44,378</u></u>	<u><u>\$144,072</u></u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$12,191	\$1,749
Accrued wages and other payroll liabilities	<u>558</u>	<u>973</u>
Total liabilities	<u>12,749</u>	<u>2,722</u>
Fund balance		
Unreserved, undesignated	<u>31,629</u>	<u>141,350</u>
Total fund balance	<u>31,629</u>	<u>141,350</u>
Total liabilities and fund balance	<u><u>\$44,378</u></u>	<u><u>\$144,072</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Major Street Fund
For The Years Ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
State grants	\$78,824	\$81,724
Interest	1,702	1,441
Other revenue	<u>2,079</u>	<u>-</u>
Total revenues	<u>82,605</u>	<u>83,165</u>
Expenditures		
Salaries and wages	23,378	19,402
Fringe benefits	1,751	1,371
Supplies	3,666	4,154
Contracted services	280,897	44,110
Utilities	165	190
Rentals	10,456	10,045
Repairs and maintenance	2,713	3,943
Miscellaneous	<u>599</u>	<u>1,752</u>
Total expenditures	<u>323,625</u>	<u>84,967</u>
Excess of revenues over (under) expenditures	(241,020)	(1,802)
Other financing sources (uses)		
Transfers in	143,097	-
Transfers (out)	<u>(11,798)</u>	<u>(20,604)</u>
Total other financing sources (uses)	<u>131,299</u>	<u>(20,604)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(109,721)	(22,406)
Fund balance, beginning of year	<u>141,350</u>	<u>163,756</u>
Fund balance, end of year	<u><u>\$31,629</u></u>	<u><u>\$141,350</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Local Street Fund
February 28, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Cash and investments	\$46,029	\$58,571
Due from other governmental units	<u>5,067</u>	<u>5,005</u>
Total assets	<u>\$51,096</u>	<u>\$63,576</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$546	\$1,355
Accrued wages and other payroll liabilities	<u>278</u>	<u>730</u>
Total liabilities	<u>824</u>	<u>2,085</u>
Fund balance		
Unreserved, undesignated	<u>50,272</u>	<u>61,491</u>
Total fund balance	<u>50,272</u>	<u>61,491</u>
Total liabilities and fund balance	<u>\$51,096</u>	<u>\$63,576</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Local Street Fund
For The Years Ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
State grants	\$28,080	\$29,021
Interest	926	362
Other revenue	<u>10</u>	<u>-</u>
Total revenues	<u>29,016</u>	<u>29,383</u>
Expenditures		
Salaries and wages	10,543	16,973
Fringe benefits	769	1,200
Supplies	4,844	3,905
Contracted services	26,530	32,733
Rentals	6,032	6,951
Repairs and maintenance	2,769	2,184
Miscellaneous	<u>546</u>	<u>49</u>
Total expenditures	<u>52,033</u>	<u>63,995</u>
Excess of revenues over (under) expenditures	(23,017)	(34,612)
Other financing sources (uses)		
Transfers in	<u>11,798</u>	<u>42,546</u>
Total other financing sources (uses)	<u>11,798</u>	<u>42,546</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(11,219)	7,934
Fund balance, beginning of year	<u>61,491</u>	<u>53,557</u>
Fund balance, end of year	<u><u>\$50,272</u></u>	<u><u>\$61,491</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Police Fund
February 28, 2006 and 2005

Assets	2006	2005
Cash and investments	\$44,459	\$66,784
Due from other governmental units	32	265
Total assets	<u>\$44,491</u>	<u>\$67,049</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$1,675	\$1,392
Accrued wages and other payroll liabilities	<u>2,301</u>	<u>1,734</u>
Total liabilities	<u>3,976</u>	<u>3,126</u>
Fund balance		
Unreserved, undesignated	<u>40,515</u>	<u>63,923</u>
Total fund balance	<u>40,515</u>	<u>63,923</u>
Total liabilities and fund balance	<u>\$44,491</u>	<u>\$67,049</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Police Fund
For The Years Ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
State grants	-	\$37,000
Fines and forfeits	\$693	5,480
Interest	1,038	665
Other revenue	<u>1,803</u>	<u>70</u>
Total revenues	<u>3,534</u>	<u>43,215</u>
Expenditures		
Salaries and wages	59,320	69,814
Fringe benefits	21,644	15,965
Supplies	1,262	2,939
Gasoline	3,202	3,599
Uniforms	-	434
Contracted services	6,661	1,986
Auto	2,871	1,348
Telephone	1,918	1,701
Radio	1,756	1,048
Education and training	100	100
Other	879	1,341
Equipment	-	3,882
Saginaw Chippewa grant expenditures	<u>7,329</u>	<u>6,151</u>
Total expenditures	<u>106,942</u>	<u>110,308</u>
Excess of revenues over (under) expenditures	(103,408)	(67,093)
Other financing sources (uses)		
Transfers in	<u>80,000</u>	<u>93,000</u>
Total other financing sources (uses)	<u>80,000</u>	<u>93,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(23,408)	25,907
Fund balance, beginning of year	<u>63,923</u>	<u>38,016</u>
Fund balance, end of year	<u><u>\$40,515</u></u>	<u><u>\$63,923</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Storm Water Separation Project Debt Service Fund
February 28, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets		
Cash and investments	\$177,831	\$182,458
Special assessments receivable - current portion	81,192	81,872
Due from other governmental units	<u>13,021</u>	<u>13,615</u>
Total current assets	272,044	277,945
Long-term assets		
Special assessments receivable	<u>567,375</u>	<u>654,008</u>
Total assets	<u>\$839,419</u>	<u>\$931,953</u>
Liabilities and fund balance		
Long-term liabilities		
Deferred special assessments revenue	<u>\$567,375</u>	<u>\$654,008</u>
Total liabilities	<u>567,375</u>	<u>654,008</u>
Fund balance		
Reserved for debt retirement	<u>272,044</u>	<u>277,945</u>
Total fund balance	<u>272,044</u>	<u>277,945</u>
Total liabilities and fund balance	<u>\$839,419</u>	<u>\$931,953</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Storm Water Separation Project Debt Service Fund
For The Years Ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Special assessment collections	\$146,047	\$141,240
User fee revenues	75,168	67,330
Interest	<u>8,069</u>	<u>3,368</u>
Total revenues	<u>229,284</u>	<u>211,938</u>
Expenditures		
Principal payments	180,000	180,000
Interest	74,885	82,445
Miscellaneous	<u>300</u>	<u>300</u>
Total expenditures	<u>255,185</u>	<u>262,745</u>
Excess of revenues over (under) expenditures	(25,901)	(50,807)
Other financing sources (uses)		
Transfers in	<u>20,000</u>	<u>20,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(5,901)	(30,807)
Fund balance, beginning of year	<u>277,945</u>	<u>308,752</u>
Fund balance, end of year	<u><u>\$272,044</u></u>	<u><u>\$277,945</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Sewer Fund
February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$119,001	\$124,806
Accounts receivable, net	<u>7,531</u>	<u>10,331</u>
Total current assets	<u>126,532</u>	<u>135,137</u>
Capital assets - depreciable, net	<u>1,460,853</u>	<u>1,516,443</u>
Total assets	<u><u>\$1,587,385</u></u>	<u><u>\$1,651,580</u></u>
Liabilities		
Accounts payable	\$135	\$429
Accrued wages and other payroll liabilities	337	340
Current portion of long-term debt	<u>190,000</u>	<u>180,000</u>
Total current liabilities	<u>190,472</u>	<u>180,769</u>
Capital lease	<u>1,350,000</u>	<u>1,540,000</u>
Total liabilities	<u><u>1,540,472</u></u>	<u><u>1,720,769</u></u>
Net assets		
Invested in capital assets, net of related debt	(79,147)	(203,557)
Unrestricted	<u>126,060</u>	<u>134,368</u>
Total net assets	<u>46,913</u>	<u>(69,189)</u>
Total liabilities and net assets	<u><u>\$1,587,385</u></u>	<u><u>\$1,651,580</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Sewer Fund
For the years ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Service charges	\$41,530	\$41,514
User fees	<u>2,560</u>	<u>2,060</u>
Total operating revenues	<u>44,090</u>	<u>43,574</u>
Operating expenses		
Salaries and wages	12,483	10,398
Fringe benefits	953	788
Supplies	4,494	2,305
Contracted services	21,646	17,909
Utilities	2,177	2,238
Depreciation	55,590	55,593
Miscellaneous	<u>12,340</u>	<u>6,481</u>
Total operating expenses	<u>109,683</u>	<u>95,712</u>
Operating income (loss)	(65,593)	(52,138)
Non-operating revenues (expenses)		
Interest income	2,174	1,699
Other	<u>21</u>	<u>37</u>
Total non-operating revenues (expenses)	<u>2,195</u>	<u>1,736</u>
Other financing sources (uses)		
Operating transfers in (out)	<u>179,500</u>	<u>160,000</u>
Net income	116,102	109,598
Net assets - beginning of year	<u>(69,189)</u>	<u>(178,787)</u>
Net assets - end of year	<u><u>\$46,913</u></u>	<u><u>(\$69,189)</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Sewer Fund
For the years ended February 28, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Receipts from customers	\$46,890	\$42,751
Payments to suppliers / outsiders	(40,951)	(28,598)
Payments to employees	(13,439)	(11,186)
Net cash provided by operating activities	(7,500)	2,967
Cash flows from non-capital financing activities:		
Operating transfers in	180,000	180,000
Operating transfers (out)	(500)	(20,000)
Net cash provided by non-capital financing activities	179,500	160,000
Cash flows from capital and related financing activities:		
Principal payments	(180,000)	(180,000)
Net cash provided by capital and related financing activities	(180,000)	(180,000)
Cash flows from investing activities:		
Interest income	2,174	1,699
Other	21	37
Net cash provided by investing activities	2,195	1,736
Net increase (decrease) in cash and cash equivalents	(5,805)	(15,297)
Cash and cash equivalents - beginning of year	124,806	140,103
Cash and cash equivalents - end of year	<u>\$119,001</u>	<u>\$124,806</u>
Cash flows from operating activities:		
Income from operations	(\$65,593)	(\$52,138)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,590	55,593
(Increase) decrease in:		
Accounts receivable	2,800	(823)
Increase (decrease) in:		
Accounts payable	(294)	231
Accrued expenses	(3)	104
Net cash provided by operating activities	<u>(\$7,500)</u>	<u>\$2,967</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Water Fund
February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$125,934	\$117,709
Accounts receivable, net	11,678	18,176
Inventory	<u>10,800</u>	<u>10,800</u>
Total current assets	<u>148,412</u>	<u>146,685</u>
Capital assets - depreciable, net	<u>1,534,278</u>	<u>1,590,048</u>
Total assets	<u><u>\$1,682,690</u></u>	<u><u>\$1,736,733</u></u>
Liabilities		
Accounts payable	\$1,757	\$3,766
Accrued wages and other payroll liabilities	<u>332</u>	<u>34</u>
Total liabilities	<u>2,089</u>	<u>3,800</u>
Net assets		
Invested in capital assets, net of related debt	1,534,278	1,590,048
Unrestricted	<u>146,323</u>	<u>142,885</u>
Total net assets	<u>1,680,601</u>	<u>1,732,933</u>
Total liabilities and net assets	<u><u>\$1,682,690</u></u>	<u><u>\$1,736,733</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Water Fund
For the years ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Service charges	\$67,138	\$70,678
User fees	1,762	4,084
Hydrant rental	<u>6,200</u>	<u>12,000</u>
Total operating revenues	<u>75,100</u>	<u>86,762</u>
Operating expenses		
Salaries and wages	14,689	20,999
Fringe benefits	1,103	1,631
Supplies	34,075	17,879
Contracted services	11,075	15,783
Rentals	1,352	5,738
Repairs	7,705	6,480
Utilities	7,813	8,184
Depreciation	55,770	55,770
Miscellaneous	<u>3,344</u>	<u>8,251</u>
Total operating expenses	<u>136,926</u>	<u>140,715</u>
Operating income (loss)	(61,826)	(53,953)
Non-operating revenues (expenses)		
Interest income	1,389	1,240
Other	8,105	7,766
Miscellaneous	<u>-</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>9,494</u>	<u>9,006</u>
Net income (loss)	(52,332)	(44,947)
Net assets - beginning of year	<u>1,732,933</u>	<u>1,777,880</u>
Net assets - end of year	<u><u>\$1,680,601</u></u>	<u><u>\$1,732,933</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Water Fund
For the years ended February 28, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$81,598	\$85,674
Payments to suppliers / outsiders	(67,373)	(59,893)
Payments to employees	(15,494)	(22,630)
Net cash provided by operating activities	<u>(1,269)</u>	<u>3,151</u>
Interest income	1,389	1,240
Other	8,105	7,766
Net cash provided by investing activities	<u>9,494</u>	<u>9,006</u>
Net increase (decrease) in cash and cash equivalents	8,225	12,157
Cash and cash equivalents - beginning of year	<u>117,709</u>	<u>105,552</u>
Cash and cash equivalents - end of year	<u><u>\$125,934</u></u>	<u><u>\$117,709</u></u>
Cash flows from operating activities:		
Income from operations	(\$61,826)	(\$53,953)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,770	55,770
(Increase) decrease in:		
Accounts receivable	6,498	(1,088)
Increase (decrease) in:		
Accounts payable	(2,009)	2,745
Accrued expenses	298	(323)
Net cash provided by operating activities	<u><u>(\$1,269)</u></u>	<u><u>\$3,151</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Internal Service Fund
February 28, 2006

	<u>2006</u>
Assets	
Cash and cash equivalents	<u>\$45,400</u>
Total current assets	<u>45,400</u>
Capital assets - depreciable, net	<u>114,956</u>
Total assets	<u><u>\$160,356</u></u>
Liabilities	
Current portion of long-term debt	<u>\$36,871</u>
Total current liabilities	<u>36,871</u>
Capital lease	<u>78,085</u>
Total liabilities	<u>114,956</u>
Net assets	
Unrestricted	<u>45,400</u>
Total net assets	<u>45,400</u>
Total liabilities and net assets	<u><u>\$160,356</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Fund
For the year ended February 28, 2006

	<u>2006</u>
Operating revenues	
Service charges	<u>\$61,793</u>
Total operating revenues	<u>61,793</u>
Operating expenses	
Principal payments	35,495
Interest	5,832
Depreciation	<u>35,495</u>
Total operating expenses	<u>76,822</u>
Operating income (loss)	(15,029)
Non-operating revenues (expenses)	
Interest income	<u>2,003</u>
Total non-operating revenues (expenses)	<u>2,003</u>
Other financing sources (uses)	
Operating transfers in (out)	<u>(89,500)</u>
Net income (loss)	(102,526)
Net assets - beginning of year	117,195
Prior period adjustment	<u>30,731</u>
Net assets - end of year	<u><u>\$45,400</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Internal Service Fund
For the year ended February 28, 2006

	<u>2006</u>
Cash flows from operating activities:	
Receipts from customers	\$61,793
Payments to suppliers / outsiders	(4,764)
Payments to employees	<u>-</u>
Net cash provided by operating activities	<u>57,029</u>
Cash flows from non-capital financing activities:	
Operating transfers in (out)	(89,500)
Cash flows from capital and related financing activities:	
Principal payments	(35,495)
Interest expense	<u>(5,832)</u>
Net cash from capital and related financing activities	(41,327)
Cash flows from investing activities:	
Interest income	<u>2,003</u>
Net cash provided by investing activities	<u>2,003</u>
Net increase (decrease) in cash and cash equivalents	(71,795)
Cash and cash equivalents - beginning of year	<u>117,195</u>
Cash and cash equivalents - end of year	<u><u>\$45,400</u></u>
Cash flows from operating activities:	
Income from operations	(\$15,029)
Adjustments to reconcile net income	
to net cash provided by operating activities:	
Depreciation	35,495
(Increase) decrease in:	
Accounts receivable	-
Increase (decrease) in:	
Accounts payable	36,871
Other	<u>(308)</u>
Net cash provided by operating activities	<u><u>\$57,029</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Fiduciary Net Assets
Fiduciary Funds
February 28, 2006 and 2005

AGENCY FUND

Assets	<u>2006</u>	<u>2005</u>
Cash - payroll account	\$4,580	\$3,731
Cash - tax account	<u>32</u>	<u>120</u>
Total assets	<u>\$4,612</u>	<u>\$3,851</u>
Liabilities		
Payroll taxes and other withholdings payable	\$4,580	\$3,731
Due to other funds	<u>32</u>	<u>120</u>
Total liabilities	<u>4,612</u>	<u>3,851</u>
Net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$4,612</u>	<u>\$3,851</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Schedule of Long-Term Debt
For The Year Ended February 28, 2006

<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Maturing Per Year</u>	<u>Outstanding March 1, 2005</u>	<u>Retired</u>	<u>Outstanding February 28, 2006</u>
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Capital Leases

**Isabella County - Shepherd Sanitary Sewer / Storm Water Separation Project Refunding Bonds
Series 1999**

Due March 1,					
1999	4.20	-	-	-	-
2000	4.20	\$30,000	-	-	-
2001	4.20	30,000	-	-	-
2002	4.20	160,000	-	-	-
2003	4.20	160,000	-	-	-
2004	4.20	180,000	-	-	-
2005	4.20	180,000	-	-	-
2006	4.20	180,000	\$180,000	\$180,000	-
2007	4.20	190,000	190,000	-	\$190,000
2008	4.20	190,000	190,000	-	190,000
2009	4.25	190,000	190,000	-	190,000
2010	4.30	190,000	190,000	-	190,000
2011	4.40	190,000	190,000	-	190,000
2012	4.50	190,000	190,000	-	190,000
2013	4.50	190,000	190,000	-	190,000
2014	4.60	210,000	210,000	-	210,000
Totals		<u>\$2,460,000</u>	<u>\$1,720,000</u>	<u>\$180,000</u>	<u>\$1,540,000</u>

Maturities on March 1, 2006 or prior - non-callable.
Maturities after March 1, 2006 - redeemed at par.

Vehicle Leases

Due June 1,					
2004	3.88	\$40,259	-	-	-
2005	3.88	35,495	\$35,495	\$35,495	-
2006	3.88	36,871	36,871	-	\$36,871
2007	3.88	38,300	38,300	-	38,300
2008	3.88	39,785	39,785	-	39,785
Totals		<u>\$190,710</u>	<u>\$150,451</u>	<u>\$35,495</u>	<u>\$114,956</u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Village Council
Village of Shepherd
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Village of Shepherd as of and for the year ended February 28, 2006, which collectively comprise the Village of Shepherd's basic financial statements and have issued our report thereon dated May 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

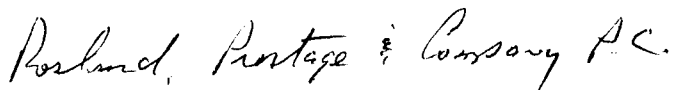
In planning and performing our audit, we considered the Village of Shepherd's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Shepherd's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated May 11, 2006.

This report is intended for the information and use of the audit committee, management, Village Council, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

May 11, 2006



MANAGEMENT LETTER

Members of the Village Council
Village of Shepherd
Shepherd, Michigan

In planning and performing our audit of the financial statements for the Village of Shepherd for the fiscal year ended February 28, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated May 11, 2006 on the financial statements of the Village of Shepherd.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
ROSLUND, PRESTAGE AND COMPANY, P.C.
Certified Public Accountants

May 11, 2006

Council Oversight

The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Therefore, we recommend that the members of the Village Council maintain a level of involvement in the financial affairs of the Village to provide appropriate oversight and independent review functions.

Cash Transfers

During our audit we found that some transfers of cash from one account to another was not posted correctly. This activity was reflected in the revenues and expenditures instead of posting the activity between the cash accounts. Consequently, year end adjustments were necessary so as not to overstate the revenues and expenditures.

We recommend that all cash transfers be posted only to those cash accounts affected and not to any other accounts.

Tap-In Fees

A portion of the tap-in fees collected by the Village for water and sewer services at the Bluejay Meadows Estates are done on behalf of GFI (a private development company) pursuant to an agreement with them. These fees are currently recorded as revenues when collected and as an expenditure when remitted to them. Recording this activity in this way overstates revenues and expenditures and, when the collections and the payments are not done in the same fiscal year, it can make for inconsistent comparisons from year to year.

Therefore, we recommend that all tap-in fees collected on behalf of GFI be recorded as a liability when received. We also recommend that all amounts due to GFI, as reflected in the liability account, be paid to them by the end of the fiscal year.